2020-21 Debt Management Strategy Consultations

Overview

The Department of Finance and the Bank of Canada are seeking the views of government securities distributors, institutional investors, and other interested parties on issues related to the design and operation of the Government of Canada's domestic debt program for fiscal year 2020–21 and beyond. Regular consultations with market participants are an integral and valued part of the debt management process and all market participants are encouraged to provide input.

To guide feedback, this document sets out questions on the Government of Canada treasury bill and bond programs. Participants are also encouraged to provide written responses to our other consultation on the design and operation of the Real Return Bond program, which can be found at the following link: https://www.bankofcanada.ca/2019/08/government-canada-real-return-bond-consultations/

Context

The fundamental objectives of debt management are to raise stable and low-cost funding to meet the financial needs of the Government of Canada and to maintain a well-functioning market for Government of Canada securities. Achieving stable, low-cost funding involves striking a balance between the cost and risk associated with the debt structure as funding needs change and market conditions vary. Having access to a well-functioning government securities market ensures that funds can be raised efficiently over time to meet the Government's needs. Moreover, to support a liquid and well-functioning market for Government of Canada securities, the Government strives to promote transparency and consistency.

The Government's debt structure is informed in part by its medium-term debt strategy, which aims to balance cost-risk trade-offs over time while supporting well-functioning markets in core sectors. The debt structure is also informed by input received from market participants during consultations. The Government's borrowing needs and issuance strategy for 2020-21 have not been determined yet, but will be communicated in the *Debt Management Strategy for 2020-21*, which will be published before March 31, 2020, likely in the 2020 Budget.

The *Debt Management Strategy for 2019-20* contained higher treasury bill and bond issuance in light of higher overall borrowing requirements. The year-end target for the treasury bill stock was raised to $151 billion, compared to $134 billion at the end of 2018-19, to support liquidity in this key funding sector. Meanwhile, gross bond issuance is expected to be $119 billion in 2019-20, about $19 billion higher than in 2018-19. Increases to bond issuance have been focused in the 3-year, 5-year and 30-year sectors.

Within this context, feedback received through these consultations will help federal debt managers design a debt strategy for 2020–21 that will continue to strike a prudent balance between cost and risk, and to strive to maintain a liquid, well-functioning Government of Canada securities market.

1. How have market conditions changed in the last year? What changes have you seen in the types of investors that are interested in Government of Canada securities and what changes in investor behaviour, preferences and requirements have you noticed?

Treasury Bills

To support the $151 billion year-end treasury bill target, bi-weekly issuance of 3-, 6-, and 12-month maturities will continue with auction sizes projected to be in the $9 billion to $15 billion range. Cash management bills and Cash Management Bond Buybacks will continue to be used to help manage the Government's cash in an efficient manner.

2. Please describe how the primary and secondary markets for Government of Canada treasury bills have been functioning this year and relative to previous years. Please comment on the amount of treasury bills being issued per auction, the allocation among the three tranches (3-month, 6-month and 12-month) as well as liquidity, trading, and investor behaviour.
3. How have markets adjusted to the higher level of treasury bill issuance so far this year?
4. Are the targets for auction size and year-end outstanding treasury bills appropriate to support primary and secondary market functioning? How much could these targets be adjusted in either direction without impacting market functioning?
5. How would you explain the front end of Government of Canada curve trading through the overnight target rate?

Bonds

Debt Management Strategy for 2019-20 plans for $119 billion in gross issuance of domestic marketable bonds. After considering scheduled maturities and planned debt repurchases, a forecasted $583 billion stock of Government of Canada bonds outstanding is expected by the end of this fiscal year. The bond issuance pattern for 2019-20 has a total of eight maturity dates (Table 1).

Table 1: Maturity Date Patterns and Benchmark Bond Size Ranges per Sector for 2019–20

Tenor	Current Target (C$bln)	Maturity Dates	Number of Auctions[3]
2-year	9-15	Feb, May, Aug, Nov	16
3-year[1]	6-12	Mar, Sep	8
5-year	12-18	Mar, Sep	8
10-year	10-16	Jun	4
30-year	12-18	Dec	3
RRB	9-15	Dec[2]	3

[1] The 3-year sector is a reopening of old 5-year benchmarks. The benchmark size range for the 3-year sector presented here is in addition to fungible outstanding previous 5-year benchmark bonds

[2] Benchmark size ranges for Real Return Bonds include an estimate for inflation adjustment. The 30-year nominal bond and Real Return Bond typically do not mature in the same year.

[3] The actual number of auctions that occur may be different than the planned number of auctions due to unexpected changes in borrowing requirements.

Last year's consultations indicated a desire for more 30-year nominal issuance in light of ongoing robust investor demand in this sector. In response, *Debt Management Strategy for 2019-20* contained a significant increase in 30-year nominal issuance. In addition, issuance has increased in the 3- and 5-year sectors, with 3-year issuance having previously been reduced in 2018-19 to accommodate lower-than-expected financial requirements.

6. Please describe the functioning of the primary and secondary markets for Government of Canada bonds this year and relative to previous years. Please comment on auction and target benchmark sizes, as well as liquidity, trading, and investor behaviour.
7. To what extent has this year's higher 30-year nominal issuance helped satisfy investor demand in this sector? At the current issuance level, would you prefer 3 auctions or 4 auctions in the 30-year sector?
8. What has been the market impact of higher issuance in the belly of the curve (i.e., 3- and 5-year sectors)?
9. *Debt Management Strategy for 2019-20* contained one fewer auction in the RRB sector. Have you noticed any impact on market conditions, demand, pricing, or liquidity due to this change?

Miscellaneous

10. If you could re-allocate issuance within existing sectors without affecting the total amount of issuance, what adjustments would you make?
11. The Debt Management Strategy is published each year in the federal budget and provides fairly consistent information year-to-year. Is there any additional information that would be useful?

BOND PORTFOLIO					
Term to Maturity (years)	**Coupon**	**Maturity**	**Issuance Sector**	**Outstanding Net of Repurchased (CAD Millions)**	**Repurchased (CAD Millions)**
Nominal Bond					
0.0	1.75%	Sep 2019	3Y	3,682	2,818
0.0	1.75%	Sep 2019	5Y	5,778	4,422
0.2	1.25%	Nov 2019	2Y	13,173	2,427
0.4	1.25%	Feb 2020	2Y	7,744	6,656
0.5	1.5%	Mar 2020	3Y	10,753	2,247
0.5	1.5%	Mar 2020	5Y	8,437	1,763
0.7	1.75%	May 2020	2Y	8,421	4,179
0.8	3.5%	Jun 2020	10Y	10,872	2,228
0.9	1.75%	Aug 2020	2Y	11,451	549
1.0	0.75%	Sep 2020	3Y	12,088	913
1.0	0.75%	Sep 2020	5Y	12,088	913
1.2	2%	Nov 2020	2Y	11,600	400
1.4	2.25%	Feb 2021	2Y	12,000	0
1.5	0.75%	Mar 2021	3Y	11,700	0
1.5	0.75%	Mar 2021	5Y	13,800	0
1.5	10.5%	Mar 2021	30Y	567	1,233
1.7	1.75%	May 2021	2Y	12,000	0
1.8	3.25%	Jun 2021	10Y	11,500	0
1.8	9.75%	Jun 2021	30Y	286	4,364
1.9	1.5%	Aug 2021	2Y	12,000	0
2.0	0.75%	Sep 2021	3Y	4,200	0
2.0	0.75%	Sep 2021	5Y	15,000	0
2.2	1.25%	Nov 2021	2Y	6,000	0
2.5	0.5%	Mar 2022	3Y	4,000	0
2.5	0.5%	Mar 2022	5Y	15,000	0
2.8	2.75%	Jun 2022	10Y	12,700	0
2.8	9.25%	Jun 2022	30Y	206	2,344
3.0	1%	Sep 2022	3Y	7,200	0
3.0	1%	Sep 2022	5Y	15,600	0
3.5	1.75%	Mar 2023	5Y	15,000	0
3.8	1.5%	Jun 2023	10Y	14,200	0
3.8	8%	Jun 2023	30Y	2,359	5,841
4.0	2%	Sep 2023	5Y	12,000	0
4.5	2.25%	Mar 2024	5Y	12,000	0
4.8	2.5%	Jun 2024	10Y	13,800	0
5.0	1.5%	Sep 2024	5Y	16,200	0
5.8	2.25%	Jun 2025	10Y	13,100	0
5.8	9%	Jun 2025	30Y	2,303	6,597
6.8	1.5%	Jun 2026	10Y	13,500	0
7.8	1%	Jun 2027	10Y	15,000	0
7.8	8%	Jun 2027	30Y	4,036	5,564
8.8	2%	Jun 2028	10Y	13,500	0
9.8	2.25%	Jun 2029	10Y	12,300	0
9.8	5.75%	Jun 2029	30Y	10,883	3,017
10.8	1.25%	Jun 2030	10Y	3,000	0
13.8	5.75%	Jun 2033	30Y	12,274	1,136
17.8	5%	Jun 2037	30Y	12,501	1,498
21.8	4%	Jun 2041	30Y	14,484	1,316
26.3	3.5%	Dec 2045	30Y	16,400	0
29.3	2.75%	Dec 2048	30Y	14,900	0
32.3	2%	Dec 2051	30Y	8,100	0
45.3	2.75%	Dec 2064	50Y	4,750	0
Real Return Bond					
2.3	4.25%	Dec 2021	RRB	5,175	0
7.3	4.25%	Dec 2026	RRB	5,250	0
12.3	4%	Dec 2031	RRB	5,800	0
17.3	3%	Dec 2036	RRB	5,850	0
22.3	2%	Dec 2041	RRB	6,550	0
25.3	1.5%	Dec 2044	RRB	7,700	0
28.3	1.25%	Dec 2047	RRB	7,700	0
31.3	0.5%	Dec 2050	RRB	5,100	0

Benchmark **Building to Benchmark**

**Source: Bank of Canada as of 31 August 2019*

**RRB numbers do not include inflation adjustment*